

**State of Arizona
Citizens Clean Elections Commission**

**Independent Accountants' Report
On Applying Agree-Upon Procedures**

June 26, 2006

Independent Accountants' Report
On Applying Agreed-Upon Procedures

State of Arizona
Citizens Clean Elections Commission

We have performed the procedures listed at Exhibit A, which were specified and agreed to by the State of Arizona Citizens Clean Elections Commission (the Commission), to information relative to 1) contributions, 2) expenditures, 3) goods and services provided by Vendor, and 4) cash on hand, in connection with the campaign of clean elections participating candidate Janet Napolitano (Respondent), for the period March 1, 2006 through March 22, 2006. We understand that this engagement was solely to assist the Commission in carrying out its oversight function. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the party specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

Procedure C.1.a. – Determination of Amount of Individual Donor Contributions

We were provided with a list of contributions received during the period March 1, 2006 through March 22, 2006. The list was prepared by Respondent and contained the following information:

1. Donor name
2. Contribution amount
3. Date contribution received
4. Donor contribution check date and check number
5. Address of donor

In addition, the Respondent provided us with a copy of all donor checks received during the period March 1, 2006 through March 22, 2006, as well as the respective bank deposit slips. We compared the check copies to the Respondent's contribution list to determine if the list agreed with respect to donor name, amount of donor contribution, and check number. We had no means to verify the receipt date of the contribution. We also compared the total amount deposited per the bank deposit slips to the total of the contributions on the list provided by Respondent.

We reviewed the list to determine whether any individual donor made cumulative contributions to Respondent in excess of One Hundred Twenty and 00/100 Dollars (\$120.00).

Findings of Procedure C.1.a.

We found no indication that any individual donor made cumulative contributions to Respondent in excess of One Hundred Twenty and 00/100 Dollars (\$120.00). We also determined that the list of contributions provided by Respondent was in agreement with copies of the donors' checks with respect to donor name, amount of donor contribution, and check number. We also determined that the total bank deposits per the bank deposit slips agreed to the amount of contributions listed by Respondent.

Procedures C.1.b. and C.1.c. – Determination of Amount of Contributions Received by Respondent

Using the list of contributions provided by Respondent described in Procedure C.1.a. above, we prepared attached Exhibit B.

Findings of Procedures C.1.b. and C.1.c.

Exhibit B reflects the amount of contributions reported as received by Respondent on each day during the period March 1, 2006 through March 22, 2006, as well as the cumulative amount of contributions for that same period.

Procedures C.2.a. and C.2.b. – Determination of Amount of Expenditures (exclusive of expenditures for goods and services provided by Vendor) made by Respondent

Using original payee invoices provided by Respondent, as well as a spreadsheet of expenditures prepared and provided by Respondent, we prepared attached Exhibit B. See Exhibit B1 for details derived from the spreadsheet of expenditures provided by Respondent.

Findings of Procedures C.2.a. and C.2.b.

Exhibit B reflects the amount of expenditures (exclusive of expenditures for goods and services provided by Vendor) made by Respondent on each day during the period March 1, 2006 through March 22, 2006, as well as the cumulative amount of expenditures for that same period.

Procedures C.3 and Findings

See Exhibit A for the description of agreed-upon procedures. See Exhibits C1 and C2 for findings and results.

Procedure C.4 and Findings

See Exhibit A for the description of agreed-upon procedures. See Exhibit B for findings and results.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on information relative to 1) contributions, 2) expenditures, 3) goods and services provided by vendor, and 4) cash on hand, in connection with the campaign of clean elections participating candidate Janet Napolitano (Respondent), for the period March 1, 2006 through March 22, 2006. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Commission and is not intended to be and should not be used by anyone other than that specified party.

Fester & Chapman P.C.

June 26, 2006

EXHIBIT A
DEFINITIONS AND AGREED UPON PROCEDURES

A. Definitions. The following are definitions and explanatory notes to be used by Independent Accountant in carrying out the procedures described in this letter.

1. **Contribution.** ARS § 16-901(5) defines “contribution” as “*any gift, subscription, loan, advance or deposit of money or anything of value made for the purpose of influencing an election.*”

2. **Expenditure.**

a. ARS § 16-901(8) defines “expenditures” as “*any purchase, payment, distribution, loan, advance, deposit or gift of money or anything of value made by a person for the purpose of influencing an election in this state including supporting or opposing the recall of a public officer or supporting or opposing the circulation of a petition for a ballot measure, question or proposition or the recall of a public officer and a contract, promise or agreement to make an expenditure resulting in an extension of credit and the value of any in-kind contribution received.*”

b. Based on the provision that expenditures include “*a contract, promise or agreement to make an expenditure resulting in an extension of credit,*” the Commission requires a candidate to report an expenditure whenever the candidate incurs an obligation to pay. In this context, the Commission interprets “extension of credit” to mean the delivery of goods and services by a vendor conditioned upon an obligation by a candidate to make payment at a later date.

3. **In-kind Contribution.** ARS § 16-901(15) defines “in-kind contribution” as “*a contribution of goods or services or anything of value and not a monetary contribution.*”

B. Applicable Contribution and Expenditure Limits. The following are applicable contribution and expenditure limits to be used by Independent Accountant in carrying out the procedures described in this letter. Note that the dollar figures have been adjusted pursuant to ARS § 16-959(A).

1. **Early Contributions.**

a. ARS § 16-945(A)(1) provides that no contributor shall give and no participating candidate shall accept contributions from a contributor exceeding One Hundred Twenty and 00/100 Dollars during an election cycle.

- b. ARS § 16-945(A)(2) provides that early contributions to a participating candidate for governor from all sources during an election cycle shall not exceed Forty-Six Thousand Four Hundred Forty and 00/100 Dollars (\$46,440.00).

- 2. **Personal Expenditures.** ARS § 16-941(A)(2) prohibits a participating candidate for governor from making expenditures of more than One Thousand One Hundred Sixty and 00/100 Dollars (\$1,160.00).

C. ***Procedures / Scope of Work.*** The Commission requests that Independent Accountant perform the following procedures on behalf of the Commission. In performing the following procedures, Independent Accountant shall review original documentation and other information to be made available by Respondent in accordance with the provisions of AAC R2-20-403. Independent Account shall present its conclusions in the form of schedules and/or written reports, as appropriate given the types of information requested.

1. **Contributions.**

- a. Independent Accountant shall determine whether any individual donor made cumulative contributions to Respondent in excess of One Hundred Twenty and 00/100 Dollars (\$120.00).
- b. Independent Accountant shall determine the amount of contributions received by Respondent on each day during the period beginning March 1, 2006 and ending March 22, 2006.
- c. Independent Accountant shall determine the cumulative amount of contributions received by Respondent through each day during the period beginning March 1, 2006 and ending March 22, 2006.

2. **Expenditures.**

- a. Independent Accountant shall determine the amount of expenditures (exclusive of expenditures for goods and services provided by Vendor) made by Respondent on each day during the period beginning March 1, 2006 and ending March 22, 2006.
- b. Independent Accountant shall determine the cumulative amount of expenditures (exclusive of expenditures for goods and services provided by Vendor) made by Respondent through each day during the period beginning March 1, 2006 and ending March 22, 2006.

3. **Goods and Services Provided by Vendor.**

- a. Independent Accountant shall determine the nature of website design and hosting, including without limitation: (i) the extent to which the website was custom designed or based on templates; (ii) the nature of any content management systems and other components incorporated

into the website; (iii) the nature of any modifications to the website; and (iv) the nature and scope of hosting services provided by Vendor; provided to Respondent by Vendor through each day during the period beginning March 1, 2006 and ending March 22, 2006.

- b. Independent Accountant shall determine the nature of other goods and services provided to Respondent by Vendor through each day during the period beginning March 1, 2006 and ending March 22, 2006.
 - c. Independent Accountant shall contact other vendors in the business of providing to political campaigns comparable website design and hosting and other goods and services to prepare an estimate of: (i) the fair market value of each of the component elements (i.e., website design, hosting, email campaign consulting) provided to Respondent by Vendor through each day during the period beginning March 1, 2006 and ending March 22, 2006; and (ii) if it is commercially reasonable for a vendor to offer as a package the types of goods and services provided to Respondent by Vendor, the fair market value of a package of such goods and services through each day during the period beginning March 1, 2006 and ending March 22, 2006.
4. **Cash on Hand.** Independent Accountant shall determine whether and the amount by which the cumulative amount of expenditures (exclusive of expenditures for goods and services provided by Vendor) made by Respondent were greater or less than the cumulative amount of contributions received by Respondent through each day during the period beginning March 1, 2006 and ending March 22, 2006.

EXHIBIT B

Record of Receipts, Disbursements and End of Day Balance for the Period March 1, 2006 through March 22, 2006

Receipts Date ***	Receipts Amount	Disbursements Date ****	Disbursements Amount	End of Day Balance
3/1/2006	\$ 3,540.00	3/1/2006	\$ (966.87)	\$ 2,573.13
3/2/2006	120.00	3/2/2006	-	2,693.13
3/3/2006	-	3/3/2006	-	2,693.13
3/4/2006	-	3/4/2006	-	2,693.13
3/5/2006	-	3/5/2006	-	2,693.13
3/6/2006	7,300.00	3/6/2006	-	9,993.13
3/7/2006	6,700.00	3/7/2006	-	16,693.13
3/8/2006	4,500.00	3/8/2006	-	21,193.13
3/9/2006	3,455.00	3/9/2006	-	24,648.13
3/10/2006	-	3/10/2006	-	24,648.13
3/11/2006	-	3/11/2006	(19.33)	24,628.80
3/12/2006	-	3/12/2006	-	24,628.80
3/13/2006	6,500.00	3/13/2006	(49.80)	31,079.00
3/14/2006	3,960.00	3/14/2006	(73.18)	34,965.82
3/15/2006	-	3/15/2006	(5,565.37)	29,400.45
3/16/2006	2,470.00	3/16/2006	(31.74)	31,838.71
3/17/2006	5,155.00	3/17/2006	(132.03)	36,861.68
3/18/2006	-	3/18/2006	-	36,861.68
3/19/2006	-	3/19/2006	-	36,861.68
3/20/2006	-	3/20/2006	(3,919.83)	32,941.85
3/21/2006	3,660.00	3/21/2006	(13.43)	36,588.42
3/22/2006	-	3/22/2006	-	36,588.42
Total Receipts	\$ 47,360.00	Total Disbursements	\$ (10,771.58)	\$ 36,588.42

*** Per records provided by Respondent

**** Per original payee invoice

The Respondent represented that the following were the procedures followed by Respondent's office regarding monies received:

1. A copy was made of each check received.
2. The following check information was entered on a spreadsheet:
 - a. Donor's name
 - b. Amount of check
 - c. Date check received
 - d. Check date
 - e. Check number
 - f. Address of donor
3. Checks were not date stamped when received.
4. Checks were not always deposited on the day received.

EXHIBIT B1

Napolitano 2006 Disbursements for Requested Period

Date	Entity	Purpose Accounting	Amount
3/1/2006	Fedex Kinkos	Shipping	\$77.18
3/1/2006	U.S. Postmaster - PHX Main Office	PO Box	80.00
3/1/2006	U.S. Postmaster - PHX Main Office	Postage for House Parties	13.59
3/11/2006	Staples	Office Supplies	19.33
3/13/2006	U.S. Postmaster - Osborn	Postage for House Parties	73.18
3/13/2006	U.S. Postmaster - Osborn	Postage for House Parties	21.89
3/13/2006	U.S. Postmaster - Osborn	Postage for House Parties	20.35
3/13/2006	U.S. Postmaster - Osborn	Postage for House Parties	31.74
3/13/2006	U.S. Postmaster - Osborn	Postage for House Parties	12.03
3/13/2006	U.S. Postmaster - Osborn	Postage for House Parties	13.43
3/15/2006	Kroloff, Noah	Payroll	2,270.92
3/15/2006	Shlossman, Amy	Payroll	1,486.27
3/15/2006	CommonCentsConsulting, LLC	Compliance Consultant	250.00
3/15/2006	International Printing Company	Petition printing*	796.10
3/15/2006	CompuPay	Payroll fees	46.76
3/15/2006	CompuPay/Internal Revenue Service	Fed/FICA	1,278.04
3/15/2006	CompuPay/State of Arizona	State Taxes	213.03
3/17/2006	Early Seed Money	NSF (name redacted) from 3/10/2006	120.00
3/18/2006	Target	Office Supplies	27.91
3/20/2006	Integrated Web Strategy	Web Design	3,384.59
3/20/2006	Arizona Democratic Party	Rent	535.24
		Net Total for this Bank Account	\$10,771.58

* For printing done March 1st

EXHIBIT C1

SUMMARY OF FINDINGS AND EXPLANATION OF RESULTS

We have completed the agreed-upon procedures and present the following summary of findings.

Comparable Vendors

During our inquiry with vendors that provide website design and hosting services, we could not find a substantially equivalent vendor based on the attributes and features provided. Specifically, none of the vendors we contacted had the ability to provide access to an existing database of e-mail contacts as part of any website hosting package. While the quotes from the vendors that we contacted did include an integrated e-mail solution, the e-mail addresses would have to be provided for upload into the website.

Based on the inability to find a comparable vendor, our schedule only shows the cost of website design and hosting from the vendors that we contacted. The first part of the schedule shows pricing from other vendors, the second part of our schedule shows a la carte pricing (if each services were purchased individually).

It is important to note that even if one of these other vendors was utilized, and the e-mail list was purchased, the result would not be substantially equivalent to the Janet2006.com website. The internet consultant for Janet2006.com, Integrated Web Strategies (IWS), does not resell their contact lists. Rather, access to the database is provided as part of the monthly contract. Additionally, the contract with IWS includes other intangible services, such as design of e-mails and marketing strategies. Consequently, our report does not include a valuation of these other services.

EXHIBIT C2

Goods and services provided by website hosting vendor.

Comparative Vendors	March 1	March 4	March 8	Total
Vendor A				
Website Development ¹	1,800	500	250	2,550
Hosting	<u>20</u>	<u>-</u>	<u>-</u>	<u>20</u>
Total ³	1,820	500	250	2,570
Vendor B				
Website Development ¹	1,599	500	250	2,349
Hosting	<u>80</u>	<u>-</u>	<u>-</u>	<u>80</u>
Total ³	1,679	500	250	2,429
Average of two vendors	1,750	500	250	2,500
A la carte *				
Domain registration	15	-	-	15
Website Hosting	30	-	-	30
Website Development ²	750	500	250	1,500
Setup fees	<u>200</u>	<u>-</u>	<u>-</u>	<u>200</u>
Total ³	995	500	250	1,745

* A la carte pricing provided to show market value of individual website features. This would require an individual to manage the purchasing, setup and integration of the entire website, which is included with packaged solutions presented above.

¹ Initial website development based on comparative integrated website as quoted/priced from professional services organizations, without access to e-mail lists. Subsequent development based on rate of \$125/hour times the number of hours provided in response.

² Initial website development for a la carte pricing estimated at 6 hours at \$125/hour, subsequent changes were calculated by multiplying estimated hours times the same market rate.

³ All companies contacted required payment upon completion of design and setup of hosting.